

2. Study the extract and table below and answer the questions that follow.

### Singapore inflation creeps upward

- ❶ Prices have risen in Singapore for the first time in five months, which is an encouraging sign that the island state could avoid the threat of deflation. According to the Singapore Department of Statistics, increases in the cost of food, clothing and housing has resulted in the consumer price index rising by 0.2 % in November, the first upward movement since June.
- ❷ Economists have predicted further falls in the inflation rate, and still believe weak consumer confidence means this current inflationary increase will not last long. The increase in inflation is welcome as the Singapore government last week warned that the state of the world economy means that Singapore's economic growth would be at a low 2.0 to 2.5 %, and the **unemployment rate** would still continue to increase.
- ❸ While these price rises may not look good for consumers, the low level of economic growth has put policy makers in fear of deflation. There already is excess productive capacity in Singapore's economy, which is dependent on trade. The disappointing state of the American (US) economy will push Singapore into the slump phase of a **business/trade cycle** again, especially as trade has fallen 30 % from the previous year.
- ❹ In Singapore, the price-conscious consumers have kept inflation low. This raises concerns that Singapore could follow Japan into a deflationary spiral and recession when prices keep falling and businesses find the conditions unfavourable to invest.
- ❺ The Singapore Government plans to raise consumption tax (indirect tax) from 3 % to 5 % at the end of the year, but even this has failed to bring forward consumer spending before the tax is implemented.

Year	Economic Growth rate (%)	Inflation rate (%)	Unemployment rate (%)
2000	10.1	1.3	3.1
2001	–5.6	1.0	3.3
2002	2.8	–0.4	4.4
2003 (estimated)	2.3	0.5	4.7

[Source: adapted from BBC News <http://news.bbc.co.uk/1/hi/business/2600313/stm>, 31 Dec 2003  
and data from Singstat and Reserve Bank of Australia]

*(This question continues on the following page)*

*(Question 2 continued)*

- (a) Define the following terms indicated in bold in the text:
- (i) unemployment rate (*paragraph 2*) [2 marks]
  - (ii) business/trade cycle (*paragraph 3*). [2 marks]
- (b) Using an appropriate diagram, explain how a government may attempt to close a deflationary gap. [4 marks]
- (c) Explain why deflation (a downward movement in the average level of prices) creates conditions that make it “unfavourable” for businesses to invest (*paragraph 4*). [4 marks]
- (d) Using information from the text and your knowledge of economics, evaluate the extent to which unemployment would still be a problem if inflation were allowed to increase. [8 marks]